

**COMMONWEALTH OF MASSACHUSETTS
BEFORE THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

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PROCUREMENT OF DEFAULT (BASIC))	D.T.E. 04-115
SERVICE POWER SUPPLY FOR)	
RESIDENTIAL AND SMALL COMMERCIAL)	July 22, 2005
AND INDUSTRIAL CUSTOMERS.)	
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**COMMENTS OF
SELECT ENERGY, INC.**

Select Energy, Inc. ("Select") appreciates the opportunity to participate in the panel discussions at the Technical Conference held by the Massachusetts Department of Telecommunications and Energy ("DTE" or "Department") on June 20, 2005 in the above referenced proceeding. In response to the request of the Chairman at the Technical Conference, Select hereby submits additional comments on the procurement of Basic Service.

Laddered Resource Portfolio Approach

- Is a laddered approach (i.e., a portfolio of several shorter- and longer-term contracts procured for overlapping terms) likely to produce lower prices for smaller customers?

A laddered approach tends to require longer-term contracts. This approach provides rate stability at the expense of providing consumers with timely and accurate price signals of the real (i.e., market) cost of energy. Laddering longer-term contracts looks good to customers when costs are locked in at the beginning of a rising price market. Over time, the earlier contracts would have locked in lower below-market prices. The opposite is true when prices are falling. Locking in to higher-priced contracts makes Basic Service prices higher than market if prices are falling. The problem is that one never knows when entering into an energy contract whether future market prices will be rising or falling.

In any event, a laddered approach of longer-term contracts is likely to produce higher prices for smaller customers due to the risk premiums that suppliers will have to include in their bids to account for such things as uncertainty of fuel costs, load fluctuations for ingress and egress, and regulatory changes that might occur during the contract term. As a result there is an inverse relationship between liquidity of the

wholesale market and the term of the energy contract. Accordingly, the longer the contracts Massachusetts suppliers seek, the higher the potential risks, and the higher the corresponding bids will be.

Select recommends that the Department consider short-term contracts (quarterly for small C&I customers and semi-annually for residential customers) that would tend to mitigate the need for such risk premiums and are likely to produce retail prices that more closely reflect market-based prices. By sending the right price signals, customers can make better decisions about their energy consumption alternatives – which might include staying on Basic Service, seeking competitive supply options, shifting consumption patterns or reducing energy consumption. As stated at the Technical Conference, Select believes that Basic Service should act as a backstop and that the market should be allowed to provide consumers with price and service options.

- Would the implementation of a ladder approach act as a barrier to the development of the competitive options for smaller customers?

Yes. The implementation of a ladder approach would have the effect of blending the actual market-based pricing over the term to the wholesale procurement cycle, e.g., two or three years. While this approach will provide relatively stable prices, it has the adverse impact of masking real price signals to customers.

Renewable Resources

- Should long-term contracts for renewable resources be included as a component of the procurement of power supply for the default/basic service?

Default/Basic Service is procured periodically and the supplier one year might not be the supplier the next year. While Select has entered into some renewable resource contracts of varying durations, generally, suppliers are hesitant to commit to long-term renewable contracts because they have no assurance of a market for those resources over the long term. This is precisely why a vibrant market for Renewable Energy Certificates (“RECs”) has developed. Suppliers can buy the quantities of RECs they need on a quarterly basis to meet their need for the corresponding quarter. Select suggests that suppliers retain the option of contracting for renewables directly or buying RECs on the market as is currently the case.

Select believes that the renewable obligation should remain with suppliers and not the utilities. First, Restructuring took the utilities out of the energy commodity business. Putting the renewable obligation on the utilities turns the clock back on restructuring. Restructuring shifted supply risk to the competitive market. As noted at the Technical Conference, prices for RECs can change. Currently, in Massachusetts, the REC market is relatively tight and RECs are selling for close to the alternative compliance payment cost. This could change. If the supply of RECs increases, the price could drop and utilities and their ratepayers could be saddled with a new breed of stranded costs. Select believes that the Commonwealth shouldn't reverse course now and open the door to utilities incurring stranded costs again.

Second, if the renewable obligation were to be put on the utilities, the utilities should be responsible for meeting the RPS for all customers in their service area and the charges should be applied across the board to all delivery service customers. Otherwise, utilities, with their ability to pass long-term costs through their rates, would be at a competitive advantage vis-à-vis competitive suppliers who do not have the scale or the ability to pass costs through like the utilities.

Expanding Customer Choice for Smaller Customers

- What steps could the Department take to increase the competitive options for residential and small commercial and industrial customers?

Select's experience in a dozen states demonstrates that the more customers receive accurate and timely price signals, the more choices the competitive market can provide to those customers. Select has also found the converse to be true. That is, the more the real price of energy is masked, the fewer choices customers will see.

The Department could consider establishing a series of technical meetings or workshops to explore a range of competitive procurement options and related issues that extend beyond the residential and small C&I customers and includes the medium and large C&I customer class. For example, Select thinks that the Department could consider introducing real-time LMP or hourly-price service for large C&I customers. Moreover, monthly price signals for medium-sized customer should also be actively explored and considered by key market stakeholders.

Such price signals could be accomplished by a monthly procurement cycle or procuring shaped monthly energy prices

on a quarterly basis. In other words, in light of the potential administrative burden of monthly procurements, the Department could accomplish the price signal goal of monthly pricing by having the utilities procure their Default/Basic Service requirements quarterly but having the energy "shaped" to reflect monthly market price fluctuations. In other words, energy for the period January – March could be procured in, say, December and the bids would reflect separate prices for each month: January, February and March.

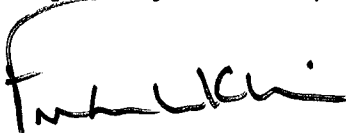
Recognizing the Department's stated dual goals of sending appropriate price signals to customers while at the same time providing for a reasonable level of price stability, the monthly pricing of Basic Service to medium-sized customers would send needed price signals while permitting the competitive market to provide options to customers, including price stability.

- Are there successful initiatives in other states that could be introduced into the Massachusetts retail market?

Yes. In New York State, the Orange and Rockland "Power Switch" Program could be introduced for residential customers. {See NGrid Presentation on program features}. At this time, Select recommends this program for residential customers only. With respect to the small C&I customer class, Select would encourage the Department to consider a quarterly wholesale power procurement arrangement discussed above. The resulting price variability would compel these customers to consider competitive supply options.

Select appreciates the opportunity to be part of this most important dialogue and looks forward to competing vigorously to provide consumers in Massachusetts with innovative, cost-competitive alternative solutions to meet their energy needs.

Respectfully submitted,



Frederic Lee Klein
Assistant General Counsel
Select Energy, Inc.
107 Selden Street
Berlin, CT 06037
860-665-2926
kleinfl@nu.com